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US-China Agricultural Relations January 1986

Background: During the first three decades of the People's Republic of China (PRC), agriculture supported the needs of industrial development, providing both investment capital and low cost food for workers. Since 1979, however, the Chinese leadership has successfully expanded agricultural output through reforms of its farm policy and trade practices. The rapid pace of growth is expected to slow over the next few years, mainly because the easiest opportunities for increasing output are gone. China is a major producer of grains, cotton, oilseeds, tea, tobacco, and pork.

The changing nature of China's agricultural sector has created an uncertain trading environment for US exporters. US agricultural exports to China, which in 1980 topped $2 billion (excluding forest products), averaged less than $600 million in the past 2 years. Recently, China has begun exporting a wide range of agricultural products to nearby markets, including the Soviet Union. Two key issues are whether China will remain an important market for US products and whether China will continue to compete in traditional US markets in Asia.

New agricultural policies: Recent Chinese agricultural policy has focused on increasing total output. Between 1978-1984, total agricultural output grew by 49%, a gain of nearly 39% per capita. The main reasons for China's success include favorable weather, increases in procurement prices plus other production incentives, less central direction, and more fertilizer. This success, however, has created large commodity stockpiles, and the cost of farm production subsidies has been a growing strain on the government's budget. As a result, PRC leaders have been forced to introduce a second stage of agrarian reform. The government has limited the quantity and price for state purchases of basic agricultural products and reduced or eliminated purchases of non-staple products. It also is taking steps to improve the efficiency of the state commercial system, to encourage the development of alternative marketing channels, and to increase investment in infrastructure. Price reforms, which represent a shift away from planning to greater reliance on markets, are being introduced gradually to close the gap between farmgate and retail food prices. It is hoped that efforts to improve the flow of market information to producers will bring production more in line with demand.

Growth in output and increases in consumption are transforming rural China. Since 1979, rural areas have experienced substantial economic expansion, and average incomes have more than doubled. Households, rather than collectives, are now the most important production unit. The profit motive is playing a much greater role in production decisions, while the importance of central planning is on the decline. A substantial portion of the rural labor force has left farming to work in rural industry.

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Agricultural imports and exports: China historically has been a net agricultural exporter, with imports mainly restricted to wheat, corn and cotton. Its agricultural imports rose sharply, but temporarily, as part of the new agricultural policies introduced since 1979. Since 1981, China has accumulated large stocks of key products, enabling it to restrict imports and widen the range of its farm exports, particularly to its neighbors.

China has emerged as a strong competitor in markets traditionally dominated by the US. Whether this is a long-term trend is uncertain. China's future export capability is restricted by limited port facilities, internal transport problems, and an ever increasing domestic demand. Moreover, gradually rising demand for animal feed is eventually expected to lead to increased grain imports. In the meantime, China has not renewed its long-term grain agreements with several suppliers, including the US.

US-China trade: In the past, agricultural products dominated US-PRC trade, accounting for as much as 50-60% of US exports to China. Since 1983, rising demand for US manufactures and technology, combined with substantially smaller purchases of US wheat, soybeans, and other commodities, has substantially reduced the share of farm products in total trade. Wheat remains the major US farm export, but there has been a growing range of minor exports, including live animals and products related to the development of a Chinese livestock industry.

US-China Trade
(in millions US dollars)

	1982	1983	1984	1985*
US Exports				
Total	$2,912	$2,173	$3,004	$3,077
Agricultural	1,504	544	613	121
US Imports				
Total	$2,502	$2,477	$3,381	$3,531
Agricultural	170	143	192	191

*January to October 1985

US farm exports are expected to decline again in 1985, with no significant recovery expected in the near term. A dispute over US textile imports in 1983 and strong competition from other suppliers have affected US sales. But the main reason for lower US farm exports and limited prospects for the future is the success of China's agriculture.

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